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C O N F I D E N T I A L KATHMANDU 002167

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BEIJING PLEASE PASS TO CHAIRMAN SPECTER FROM AMBASSADOR
MORIARTY

E.O. 12958: DECL: 08/09/2016

TAGS: PGOV PTER NP

SUBJECT: NEPAL SCENESETTER FOR AUGUST 12-14 VISIT OF CODEL
SPECTER

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

SUMMARY AND INTRODUCTION

¶1. (C) Your visit comes at a critical moment in Nepal's history. The country is perhaps closer to establishing lasting peace than it has been at any other time during the 10-year-old Maoist insurgency. On August 9, the Nepalese Prime Minister GP Koirala and the Maoist leader Prachanda signed a joint letter to UN Secretary General Kofi Annan requesting a greatly enlarged UN role, notably including monitoring of the Maoist combatants. Regrettably, the central issue of decommissioning of Maoist weapons was deferred. Meanwhile, an interim constitution is nearly complete and an interim government with Maoist participation is envisioned in the coming months leading to elections for a constituent assembly perhaps as soon as April 2007. The government continues to insist, however, that such participation will not occur until the Maoists are separated from their weapons. The nationwide elections would be the first in nearly a decade. The coalition government is struggling to deal with multiple challenges, including a sickly Prime Minister, internal division, continued Maoist violence, limited financial resources and a battered economy.

¶2. (C) Your trip will be the first in more than two years by a Member of Congress. Your reiterating USG support for Prime Minister Koirala and his government will help me motivate the GON to stay the course. End Summary and Introduction.

THE SPA AND THE MAOISTS RULE THE SCENE

¶3. (C) The Seven-Party Alliance (SPA) and the Maoists have dominated the political scene since King Gyanendra reinstated Parliament on April 24. Since then, the king has largely disappeared from the public eye. The SPA - a coalition of political parties that opposed the King's February 2005 takeover - and the Maoists have had great difficulty transforming the tactical alliance they formed against the King's dictatorship in the form of a November 2005 12-point

understanding into a working system of government. While demanding a share of power in Kathmandu, the Maoists refuse to abandon their campaign of violence and, I believe, the eventual goal of a one-party republic. In the meantime, the SPA has been hard pressed to merge its diverse ideologies into a common voice. It also suffers from an uncertainty of leadership. Ailing Prime Minister and center-right Nepali Congress (NC) President GP Koirala has been hospitalized repeatedly. No other party leader in any party commands the same nationwide standing and no plans appear to have been made for a successor.

CAREENING TOWARD DEMOCRACY

¶4. (C) The April pro-democracy movement and the reinstatement of the 200-plus-member House of Representatives, the lower house of Parliament, led to a dizzying pace of transformation. MPs returned to the seats they last held in 2002 and agreed to work toward constituent assembly elections. During the following month, the House of Representatives issued decrees that limited the powers of the King and declared Nepal a secular state. The House also stripped the Nepal Army of the "Royal" moniker and placed it under civilian control. The GON and Maoists created negotiation teams to lead the peace process dialogue. On May 26, the GON and Maoists signed a 25-point Code of Conduct to govern each side's unilateral cease-fire.

A PEACE PROCESS ON TWO LEVELS

¶5. (C) The GON and Maoist negotiation teams planned high-level "summit" meetings to work through the formal peace process, but many decisions have sprung from informal meetings between Maoist and SPA leaders. The two largest SPA parties, the NC and the Communist Party of Nepal-United Marxist Leninist (CPN-UML), the largest center-left party, have led the way in back-room talks, much to the displeasure of the excluded SPA members. These private negotiations led in mid-June to an eight-point agreement that was widely criticized by SPA members whom PM Koirala did not consult before signing it. The document led to the creation of the Interim Constitution Drafting Committee and the National Monitoring Committee for the Cease-fire Code of Conduct, but the agreement's failure to deal adequately with the question of decommissioning Maoist arms has bedeviled the government ever since.

ALL EYES ON ARMS MANAGEMENT

¶6. (C) Management of the Maoist arms, specifically separation of the Maoist combatants from their arms, remains the primary issue in the peace process. The joint letter to the Secretary General signed on August 9 set forth a strong role for the UN. In addition to requesting the UN to continue its work monitoring human rights in Nepal (Note: the UN's human rights office here is the largest in the world), the letters requested that the UN also assist in monitoring the cease-fire Code of Conduct, monitor Maoist combatants and their weapons, monitor the Nepal Army in its barracks, and supervise and monitor Constituent Assembly elections (which could come by April 2007). What the letter failed to do was indicate whether the combatants would be separated from their arms. The modalities of that issue were deferred to an agreement at a future date between the GON, the Maoists and the UN. Most in the SPA agree that Maoists cannot join an interim government until they completely disarm. What will happen is not clear.

¶7. (C) Meanwhile, I continue to receive reports of Maoist extortion, kidnappings, and other violations of the May 26 Code of Conduct. The Maoists have told their cadre to prepare for another people's movement and some at the highest levels have talked of an "October Revolution," indicating a readiness to restart the war should their democratic

posturing fail. I fear that, if PM Koirala's government holds firm and refuses to hand over power to the Maoists at the negotiating table (and I am doing everything I can to buck up the government), the rebels will resort to arms again, as early as November, this time from a strengthened position with forces positioned in the Kathmandu Valley.

ECONOMIC WOES

¶8. (SBU) Nepal's GDP grew a dismal 1.9 percent in FY 2005/06, while inflation increased to 8 percent annually. Approximately USD 1 billion in foreign remittances pumped into the economy last year increased per capita income to USD 322, a nominal growth of USD 20. The GON, sapped by the Maoist insurgency and faced with nurturing a fledgling democracy, lacks sufficient financial resources to kick-start economic activity. On July 12, Finance Minister Ram Sharan Mahat announced an ambitious USD 1.97 billion budget for FY 2006/07, which he said was aimed at institutionalizing the democratic system and establishing peace through constituent assembly elections. The budget included USD 325 million in foreign grants, a 72 percent increase over the previous year. Whether the GON will be able to implement the budget hinges on how the peace process unfolds. Final donor commitments for most of the foreign funds depend on the GON and Maoists reaching an internationally accepted peace.

¶9. (SBU) Political turmoil and the Maoist threat have created a hostile business environment. Many businesses and individuals are considering transferring operations and assets to other countries. Foreign direct investment has decreased nearly 50 percent since 2000. Nepal is primarily a subsistence agriculture economy, but its industrial base has provided employment to the growing number of poor flocking to the cities. If Nepalese businessmen flee the country instead

of trying to work within the current unstable situation, the Nepalese economy will suffer and further hurt the poorest of the poor.

TIBETAN AND BHUTANESE REFUGEES

¶10. (C) Nepal hosts two refugee populations of note, Tibetan and Bhutanese. Two Tibetan refugee populations concern us: Tibetans transiting to India and resident Tibetans (some of whom may be resettled in the United States). With considerable pressure from the Embassy, the GON recently began to issue exit permits to transiting Tibetans, allowing them to leave Nepal and travel safely to India. The USG is currently funding an expansion of the Tibetan Relocation Center located in Kathmandu to make it possible to provide shelter to transiting Tibetans as they wait for processing by UNHCR here in Kathmandu.

¶11. (C) Over 100,000 Bhutanese refugees have been living in seven camps in southeastern Nepal since the early 1990s, when the Royal Government of Bhutan (RGOB) pushed ethnic Nepalese to leave Bhutan. We continue to discuss with the GON and international actors options for a durable solution to the Bhutanese refugee issue, including repatriation, local integration, or resettlement of Bhutanese refugees. The GON recently agreed to allow UNHCR to conduct a re-registration of the camps, a necessary step to lay the foundation for future solutions. We have been pushing the GON to allow resettlement of 16 "vulnerable cases" (young refugees at particular risk in the camps, including minor girls who have been raped) to the United States and Canada. We are hopeful that these 16 refugees will be allowed to leave soon.

USAID'S STRATEGIC OBJECTIVES

¶12. (C) The U.S. Government through USAID has been one of the principal foreign donors to Nepal since the 1950s. This assistance has given us considerable credibility with the Nepalese people. USAID's program in Nepal has an overall

level of approximately USD 45 million for FY 2006, including the USAID mission programs, new activities by the Office of Transition Initiatives (OTI), and a regional Office of Foreign Disaster Assistance (OFDA) program. Approximately USD 40 million will finance USAID's three strategic objectives for Nepal: enhance stability and security, strengthen governance and protect human rights, and build capacity of critical institutions. The lion's share of the program budget goes to enhancing stability and security, including components to support the peace process, achieve equitable access to quality basic education, mitigate conflict and aid victims of conflict, protect and increase the assets and livelihood of the poor, and reduce the transmission and impact of HIV/AIDS with its potentially destabilizing effects. To strengthen governance and protect human rights, USAID supports activities to reduce trafficking in persons, strengthen civil society and democratic political parties, and support UN and GON efforts to protect human rights. USD 13 million has been allotted to improve institutions, including the agencies and local networks that address child survival, health, and nutrition; maternal care; family planning; anti-corruption reforms; and the justice sector. I am particularly proud of the work OTI is doing to get support to crucial areas of the peace process quickly and efficiently. Lastly, USAID/Nepal hosts a regional OFDA that has, over the past year alone, responded to the tsunami, the Pakistan earthquake, and even seconded staff for the Katrina response.

MILITARY AND SECURITY ASSISTANCE

¶13. (C) Although much smaller in size, our military and security assistance has played an important role in contributing to stability in Nepal. My Mission and I are very aware of the importance of protecting human rights and share the consensus on Capitol Hill on the issue of military assistance. The GON is also currently very sensitive to the perception that U.S. assistance in this area might jeopardize the peace process. With that in mind, I believe that it is still possible and, in my view, crucial that we continue to provide non-lethal assistance to the Nepal Army and police forces. Ensuring law and order is one of the fundamental demands placed on any government. I look forward to discussing these issues with you in more detail on your arrival.

CONCLUSION

¶14. (U) Let me add in conclusion, how delighted I am that you and the rest of your delegation, including Mrs. Specter, will be coming to Kathmandu. We look forward to welcoming you to Nepal and trust you will find your time here well spent.

MORIARTY